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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 30TH APRIL, 2014

MAINTAINING STABILITY IN THE MONETARY POLICY PATH

The Monetary Policy Committee met on 30th April, 2014, to review market developments and the outcomes of its previous monetary policy stance. The Committee noted that overall inflation remained within the target range in April 2014 while exchange rate stability had been maintained. It noted the following outcomes in the market since its meeting in March 2014:

- The overall month-on-month inflation increased slightly from 6.27 percent in March 2014 to 6.41 percent in April 2014 largely reflecting an increase in transport costs. Nevertheless, month-on-month non-food-non-fuel (NFNF) inflation, which measures the impact of monetary policy, declined from 4.98 percent to 4.53 percent during the period. This reflects the fact that the monetary policy stance continues to support a stable inflation rate.
- The monetary policy operations adopted coupled with increased foreign exchange inflows through Diaspora remittances supported exchange rate stability. Specifically, the Kenya Shilling to US Dollar exchange rate continued to fluctuate within a narrow range in April 2014. The Central Bank of Kenya (CBK) level of usable foreign exchange reserves increased from USD 6,213 million (equivalent to 4.29 months of import cover) at the end of March 2014 to USD 6,339 million (equivalent to 4.37 months of import cover) at the end of April 2014. The build-up in reserves largely reflected the sale of foreign exchange to CBK by commercial banks.
- The Government domestic borrowing programme for the Fiscal Year 2013/14 was consistent with the Medium-Term Debt Management Strategy. In addition, the Committee noted that the increased investor appetite for longer-dated domestic debt instruments has continued to lower refinancing risk in the domestic debt profile.
- The Central Bank Rate (CBR) coordinated movements in short-term interest rates while the liquidity management operations adopted by the CBK maintained stability in the interbank market.
- The latest stress tests and data showed that the banking sector remains solvent and resilient. This has continued to enhance the transmission of monetary policy signals to the real sector. The annual growth in private sector credit stood at 22.66 percent in March 2014 compared with 21.46 percent in February 2014. This is an indication of a pickup in domestic economic activity and was supported by the continued integration of the mobile phone financial services and banking platforms. The private sector credit growth is being monitored carefully to ensure that it does not trigger any demand inflation pressure or adverse inflationary expectations. In addition, the ratio of non-performing loans to gross loans decreased from 5.8 percent in February 2014 to 5.6 percent in March 2014 indicating a lowering in credit risk. A combination of declining credit risk and rising private sector growth supports private investment and growth.

- The latest data from the KNBS showed that the financial intermediation sector grew by 7.2 percent in 2013 compared with 6.5 percent in 2012. This contributed significantly to the 4.7 percent overall economic growth in 2013.
- Confidence in the economy remains strong. Activity at the Nairobi Securities Exchange (NSE) remained buoyant where the NSE-20 index stood at 4,945.78 at the end of March 2014 from 4,933.44 at the end of February 2014. Diaspora remittances, buoyed by the strengthening global economy, rose to their highest level so far, reaching USD 119.59 million in March 2014 compared with USD 110.42 million in February 2014. This has moderated the impact of the temporary reduction in foreign investors' participation at the NSE. In addition, the MPC Market Perception Survey conducted in April 2014 showed that the private sector expects a strong growth in 2014 with inflation and the exchange rate remaining stable for the remainder of 2014.

On the global scene, the Committee noted that the global economy was projected to grow from an estimated 3.0 percent in 2013 to 3.6 percent in 2014 largely reflecting the continued recovery of advanced economies. Notably, growth in the Eurozone had turned positive partly reflecting a pickup in domestic demand. Similarly, growth in Sub-Saharan Africa was projected to accelerate from 4.9 percent to 5.4 percent in the period. This outlook for the global economy is expected to benefit Kenya's exports and support exchange rate stability. In addition, the commitment by the United States to a gradual and measured tapering off of the economic stimulus programme will dampen any volatility in the global currency and financial markets. However, the heightened Russia-Ukraine political situation coupled with the persistent instability in the Middle East and North African region remains a threat to the stability of international oil prices and the overall price stability objective.

The Committee concluded that the monetary policy measures had continued to deliver the desired price stability. The monetary policy path remains credible despite the slight rise in overall inflation. It therefore decided to retain the CBR at 8.50 percent so as to continue anchoring inflationary expectations and sustain price stability. The CBK will continue to monitor the key macroeconomic aggregates and any emergent risks from the external and domestic economies that may impact on price stability.

PROF. NJUGUNA NDUNG'U, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE
30th April, 2014